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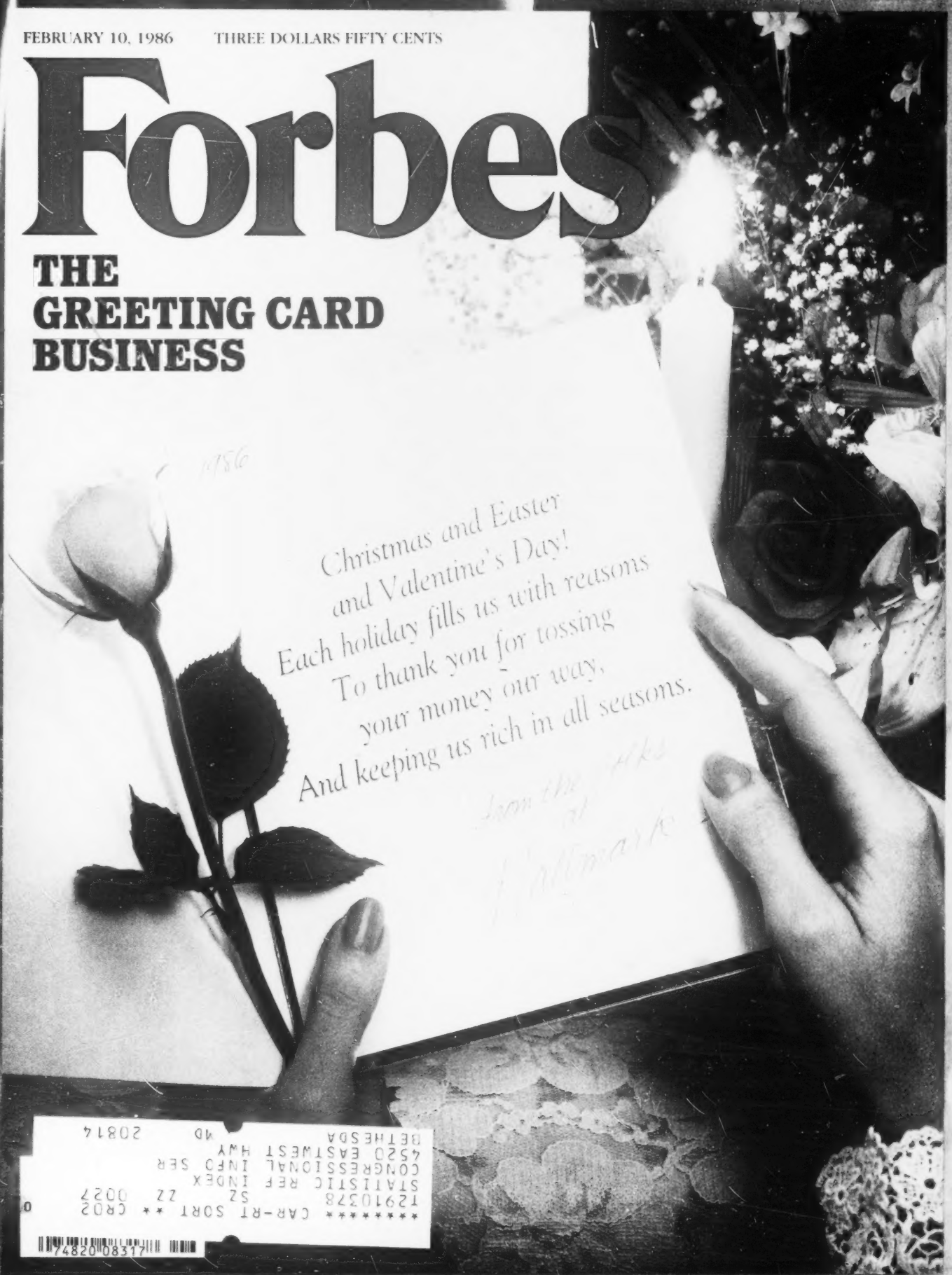
Forbes

THE GREETING CARD BUSINESS


Christmas and Easter
and Valentine's Day!
Each holiday fills us with reasons
To thank you for tossing
your money our way,
And keeping us rich in all seasons.

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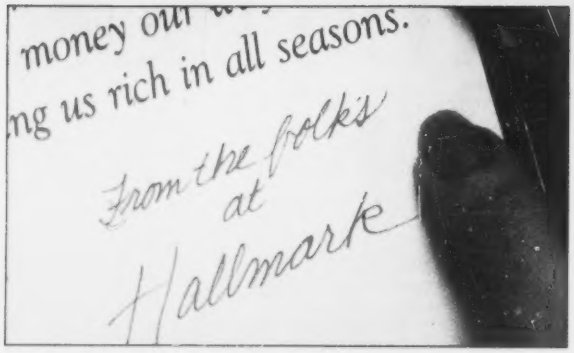

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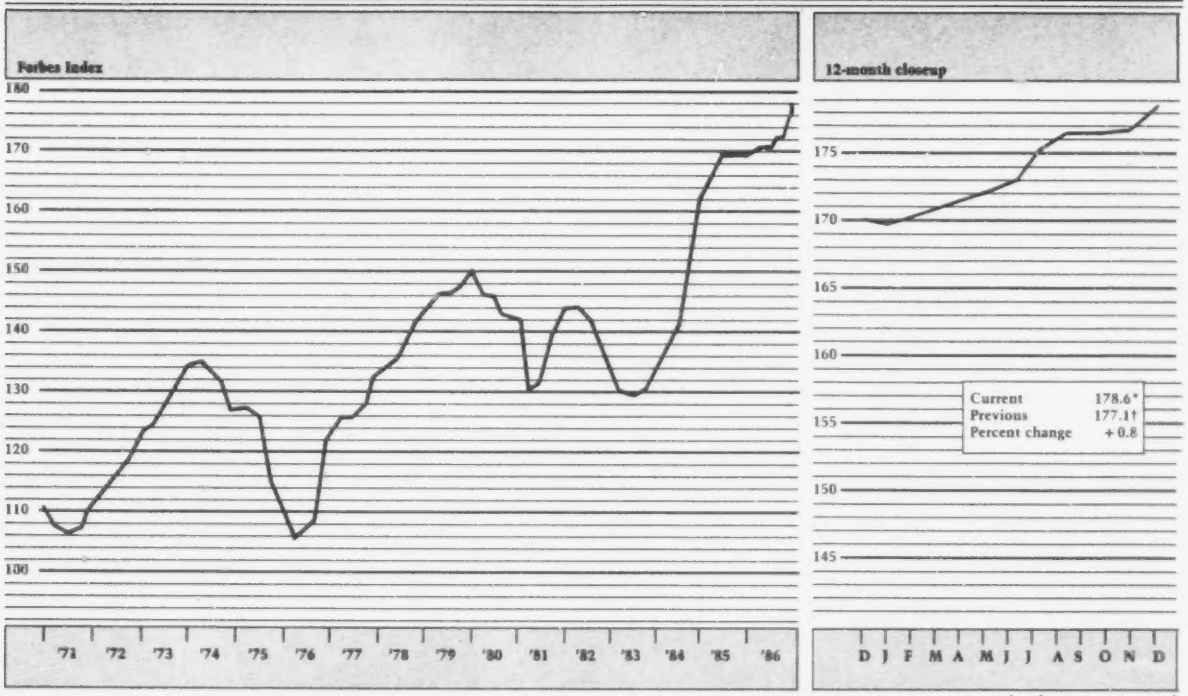
Cover photo by Dan Wagner

The Forbes Index



*preliminary †revised

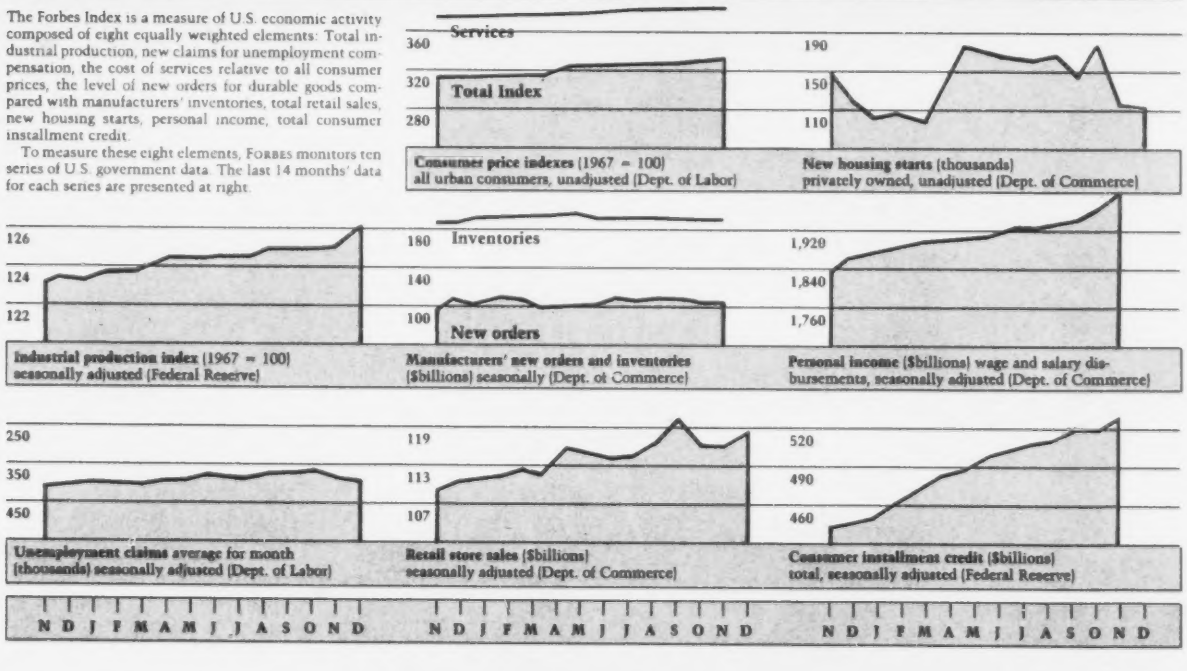
Crossroads. The Forbes Index climbed 0.8%, to a new high. The stimulative effects of a weaker dollar seem to be taking hold. Industrial production and retail sales went up 0.7% and 1.9%, respectively, over the previous reporting period. This was the largest month-to-month increase in industrial production since last August.

Latest monthly figures show a rise of 0.9% in consumer debt, to $536 billion, which puts it at 19.7% of disposable income, an alltime high. Inflation remains at a reassuring 3.1% annual rate. Two components prevented the Forbes Index from moving even higher: New housing starts dropped 5.1%, in spite of long-term mortgage rates dropping almost into single-digit territory, and new unemployment claims jumped 1.7%.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


Services
360
320
Total Index
280
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
126
124
122
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180
140
100
Inventories
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
1,920
1,840
1,760
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
119
113
107
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
520
490
460
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
N D J F M A M J J A S O N D
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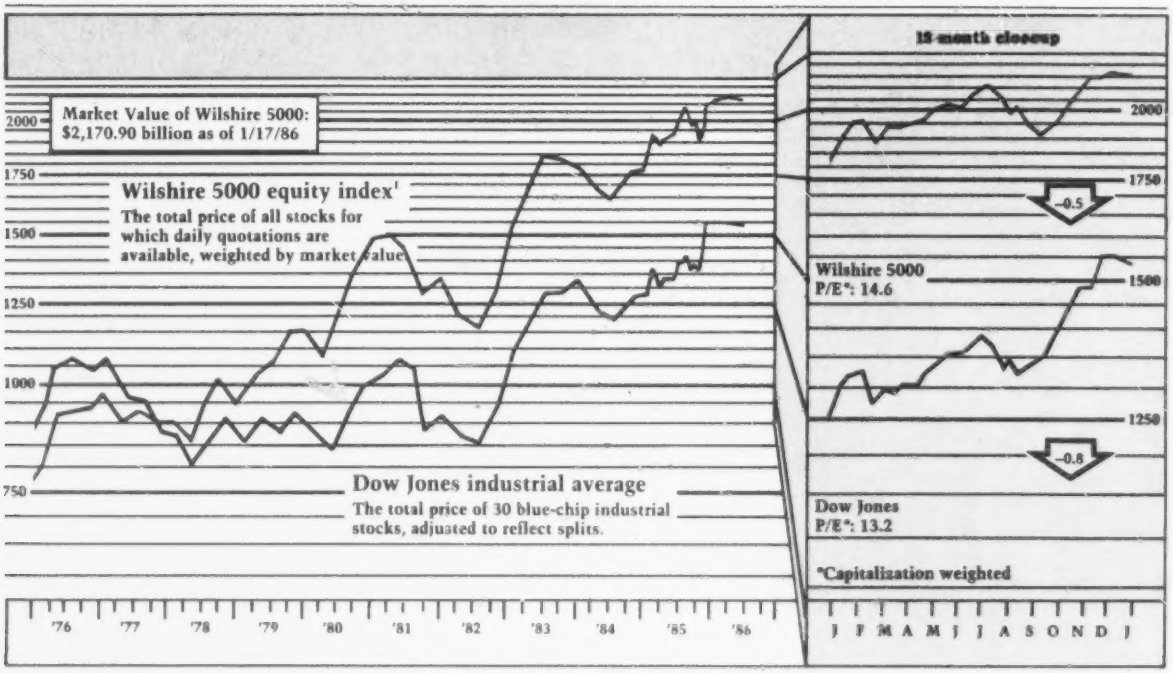
N D J F M A M J J A S O N D

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Behind the headlines. Yes, there was a correction. The Dow dropped 39 points in one day, and the overall market, as measured by the Wilshire index, lost 0.5% in the recent two-week period. But smaller companies held up well. Nasdaq shares gained 1.5%, while Amex issues were virtually unchanged. What happened? Investors were selling off blue chips and stocks that had been caught up in merger speculation, while buying secondary and speculative issues.

It was merely catching-up time for small capitalization stocks. While the Dow and NYSE had been hitting new highs since summer 1984, it has taken Amex and Nasdaq shares this long to catch up to where they were 2½ years ago. Nasdaq shares ended the two-week period at a new high. During the last ten trading days Amex shares also broke their July 1983 record before making a slight retreat.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–0.3	–1.0	–0.4	–0.8	1.5	2.4
in last 52 weeks	22.5	25.1	25.2	21.5	17.3	25.7

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	0.2	9.8	12.7	1.3	4.3	4.0	1.6	10.2	10.9	2.2	0.2	13.0
in last 52 weeks	25.2	32.8	49.9	30.8	23.3	33.8	25.1	42.1	50.3	32.0	34.7	21.9

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created.
[2]Based on sales.
[3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

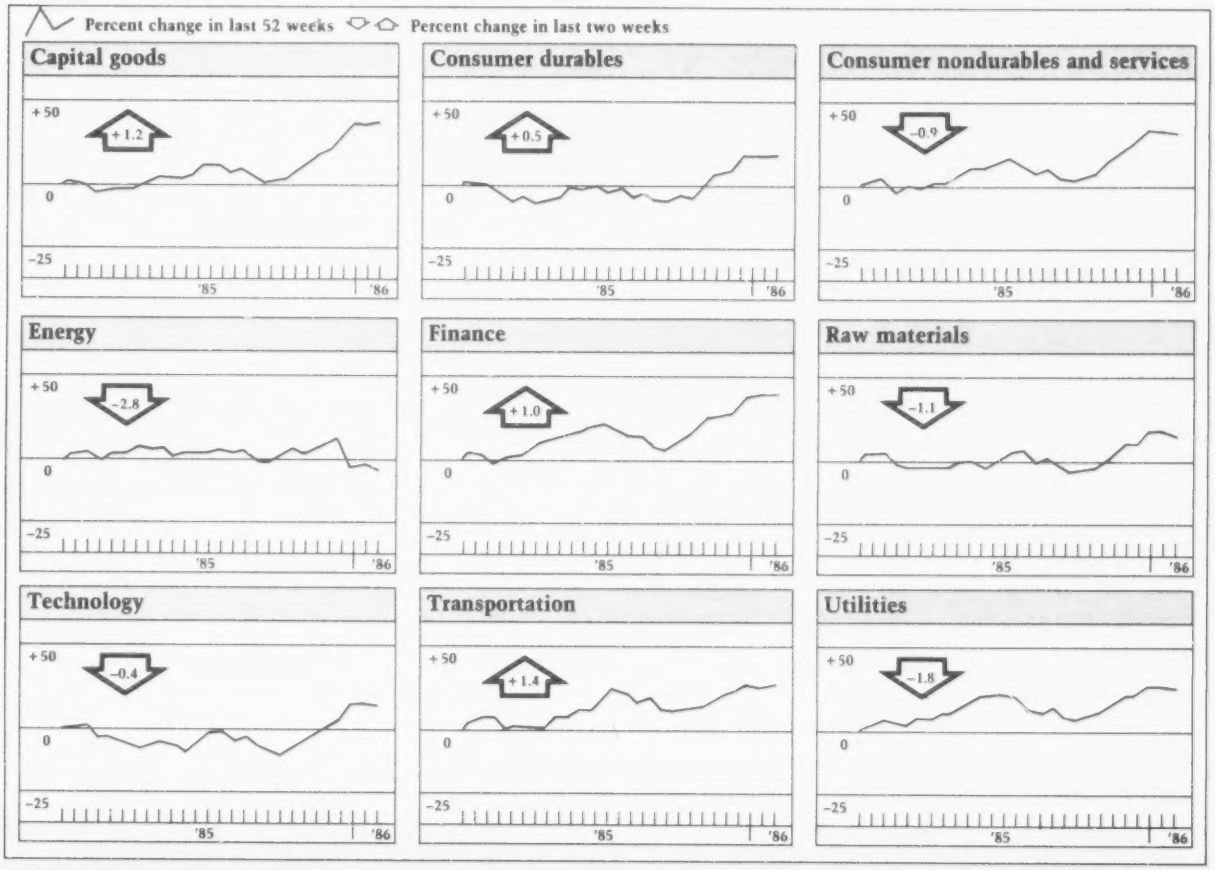
Note: All data for periods ending 1/17/86. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where The Action Is

Running on different tracks. The nine Wilshire sectors show uneven 52-week performance. Only three groups exceeded the 22.5% gain of the Wilshire index. Finance shares, up 34.4%, led the pack. Consumer nondurables and capital goods also turned in above-market gains. At the other extreme are energy shares, which are a mere 8.7% higher than they were a year ago. Technology and consumer durables fared only slightly better.

Will the same pecking order hold a year from now? Probably not. The top groups may have had their biggest run, while the neglected areas may be rediscovered. Out-of-favor sectors are generally cheaper. Consumer durables and energy, for example, sell at close to 8 times estimated 1986 earnings. *(See estimates below.)*



What The Analysts Think

Wall Street likes money. Finance, the sector with the best 52-week price performance, was also the only group to show a rise in 1986 earnings estimates during the last two weeks. Utilities showed the smallest estimate cuts. Lower interest rates mean higher earnings for finance companies and greater appeal of yield stocks like utilities.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.16	13.5
1986 estimates	4.23	10.1
1987 estimates	NA	NA

NA: Not available.

Rank based on change in estimate	Sector	Estimated 1986 EPS	Estimated 1986 P/E	% change in 1986 estimate in 2 weeks	% change in 1986 estimate in 4 weeks
1	Finance	$3.94	9.3	% 0.16	% 0.72
2	Utilities	3.39	8.3	–0.07	–0.08
3	Raw materials	2.34	12.2	–0.14	–0.48
4	Consumer nondurables	2.69	12.7	–0.14	–0.07
5	Capital goods	2.88	12.1	–0.16	–0.69
6	Technology	2.94	12.7	–0.22	0.08
7	Consumer durables	4.41	8.0	–0.37	0.02
8	Energy	3.48	8.1	–0.54	–0.87
9	Transportation	2.72	10.5	–1.85	–3.36

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/17/86. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.